

Message Text

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FM AMEMBASSY JIDDA

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INFO AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMCONSUL DHAHRAN

S E C R E T JIDDA 4594

EXDIS

E.O.: 11652: XGDS

TAGS: ENRG, SA

SUBJ: SUPREME OIL COUNCIL RECOMMENDS DROPPING IDEA OF
OIL AUCTION

REF : A. JIDDA 4431; B. JIDDA 4570

SUMMARY: MINPET YAMANI TOLD CHARGE AUGUST 7 THAT HIGHER PETROLEUM COUNCIL, CHAIRED BY PRINCE FAHD, HAD RECOMMENDED TO KING THAT NO RPT NO OIL AUCTION BE HELD. YAMANI STICKING WITH RECOMMENDATION AUCTION TAKE PLACE. KING COULD DECIDE BETWEEN CONFLICTING RECOMMENDATIONS AUGUST 8 OR 10. YAMANI WILL INFORM CHARGE IF THERE IS ANYTHING TO REPORT. WE BELIEVE AUCTION MAY WELL BE OFF AT LEAST FOR PRESENT. END SUMMARY.

1. MINISTER OF PETROLEUM YAMANI ASKED TO SEE ME AFTERNOON OF WEDNESDAY, AUGUST 7. I HAD THAT MORNING ASKED FOR AN
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APPOINTMENT THURSDAY OR SATURDAY, BUT HE EXPLAINED AT

MEETING THAT HE HAD WANTED TO TELL ME OF SOME RECENT DEVELOPMENTS IN SAUDI OIL POLICY.

2. THE HIGHER PETROLEUM COUNCIL (HPC) CHAIRED BY PRINCE FAHD, HAD MADE A RECOMMENDATION TO THE KING THAT THE PROPOSAL FOR AN OIL AUCTION BE DROPPED ALTOGETHER AND THAT THE SAG PEG THE SELLING PRICE OF ITS OIL AT 94.85 PERCENT OF POSTING (THE SAME AS KUWAIT). YAMANI NOTED THE SUPREME OIL COUNCIL'S FUNCTIONS WERE MERELY ADVISORY, AND THAT HE DID NOT FAVOR ITS RECOMMENDATION. HE ADDED, HOWEVER, THAT HE WAS OPPOSED BY PRINCE FAHD AND ALSO BY THE MINISTRY OF FINANCE--WHICH WAS CONSCIOUS THAT SAUDI ARABIA WOULD GAIN MANY BILLIONS OF DOLLARS BY THE HPC'S RECOMMENDATIONS.

3. YAMANI DID NOT KNOW HOW THE KING WOULD RESPOND TO SUCH CONFLICTING VIEWS BY HIS CLOSE ADVISORS. HE NOTED, HOWEVER, THAT IN ADDITION TO ANTI-AUCTION PRESSURE FROM WITHIN THE GOVERNMENT, THE KING WOULD ALSO BE AWARE OF OPPOSITION FROM ABROAD, PARTICULARLY FROM ABU DHABI, KUWAIT, IRAN, AND ALGERIA.

4. WHETHER AN AUCTION WAS HELD OR NOT, YAMANI DID NOT THINK THERE WOULD BE MUCH OF A PRODUCTION INCREASE IN THE FORESEEABLE FUTURE. OIL STOCKS WERE HIGH AND STILL RISING, AND THE OIL MARKET WAS DECIDELY SPONGY.

5. YAMANI REMARKED THAT THE BASIC PROBLEM, OF COURSE, WAS OF LOWERING THE PRICE OF OIL. THIS COULD BE ACCOMPLISHED BY AN AUCTION OR BY THE SAG'S UNILATERALLY LOWERING THE SALE PRICE. REGARDING THE LATTER, YAMANI SAID HE DID NOT THINK THE SAG WOULD WISH TO ABSORB THE CRITICISM THAT SUCH A "GIVE-AWAY" PRICE POLICY WOULD STIR UP.

6. YAMANI THOUGHT THE KING MIGHT DECIDE ON THE HPC'S RECOMMENDATION ON THURSDAY, AUGUST 8 OR PERHAPS ON SATURDAY. HE WILL SEE ME WHEN THERE IS SOMETHING FURTHER TO REPORT.

7, COMMENT: YAMANI'S STATEMENTS GENERALLY SUPPORT EARLIER INDICATION (REF B) THAT THE OIL AUCTION MIGHT BE OFF. THE KING'S OPERATING STYLE ALSO SUGGESTS TO US THAT THE AUCTION
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MIGHT AT LEAST BE POSTPONED SINE DIE. IN PAST, KING HAS TENDED TO EQUIVOCATE WHEN MINISTERS HAVE TRIED TO GET HIM TO DECIDE BETWEEN CONFLICTING RECOMMENDATIONS. IN VIEW OF STRONG FOREIGN OPPOSITION. MOREOVER, TO THE IDEA OF AN AUCTION, THE KING MIGHT FIND COURSE OF LEAST RESISTANCE WOULD BE TO TAKE NO DECISION--IN WHICH CASE NO AUCTION WOULD TAKE PLACE.
HORAN

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